CalPERS

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Agenda Item 4a

May 17, 2011

TO: MEMBERS OF THE BENEFITS AND PROGRAM ADMINISTRATION COMMITTEE

I. SUBJECT: Actuarial Valuation Report for the 1959 Survivor Benefit Program as of June 30, 2010 and Required Employer and Employee Contribution Rate for the 2011-2012 Fiscal Year

II. PROGRAM: Actuarial Office

III. RECOMMENDATION:

It is recommended that the Committee accept and recommend to the Board of Administration approval of the June 30, 2010 actuarial valuation report for the Public Agencies' 1st, 2nd, 3rd, 4th, and Indexed Levels and for the State and Schools 5th Level of the 1959 Survivor Program and with the adoption of the employer and employee monthly premiums for fiscal year 2011-2012 as shown in the table in the Analysis section of this Item:

IV. ANALYSIS:

Background

The 1959 Survivor Benefit program provides six different levels of survivor benefits for employees who die while actively employed and without Social Security coverage. The program is intended to serve as a replacement for the survivor benefits that would otherwise be provided by Social Security.

All levels of the 1959 Survivor Program are "pooled" benefits. For all levels other than the Indexed Level, participating employers contribute a monthly amount per member as determined by the Term Insurance Method. The use of this method is specified by State Statute Sections 21574.7(f), 21574(e), 21573(h), 21572(i), and 21571(g).

For the Public Agency Indexed Level of the 1959 Survivor benefit, participating employers contribute a monthly amount per member as determined by the Entry Age Normal Method. The use of this method was determined by the Board as specified by State Statute 21574.5(f). In all cases contributions are billed to employers apart from the employer's contribution rate for retirement and disability benefits. For those employers in each pool as of the valuation date, the employer Normal Cost is adjusted by an amortization of the surplus or unfunded liability.

Following are recommended employer and employee premiums for fiscal year 2011-2012. Also shown are 2010-2011 premiums for comparison:

	2010-2011 Premium		
Pool	**Employer**	**Employee**	**Total**
State 5th Level Pool*	$5.45	$5.45	$10.90
Schools 5th Level Pool*	$0.00	$2.00	$2.00
PA 1st Level Pool**	$0.00	$2.00	$2.00
PA 2nd Level Pool**	$0.00	$2.00	$2.00
PA 3rd Level Pool**	$0.00	$2.00	$2.00
PA 4th Level Pool**	$3.90	$2.00	$5.90
PA Indexed Level Pool*	$2.90	$2.90	$5.80

	2011-2012 Premium		
Pool	**Employer**	**Employee**	**Total**
State 5th Level Pool*	$5.45	$5.45	$10.90
Schools 5th Level Pool*	$0.00	$2.00	$2.00
PA 1st Level Pool**	$0.00	$2.00	$2.00
PA 2nd Level Pool**	$0.00	$2.00	$2.00
PA 3rd Level Pool**	$0.00	$2.00	$2.00
PA 4th Level Pool**	$3.90	$2.00	$5.90
PA Indexed Level Pool*	$3.20	$3.20	$6.40

* Section 21581 of the California Public Employees' Retirement Law requires mandatory cost sharing when the total premium exceeds $4.00

** Mandatory $2.00 member monthly premium required

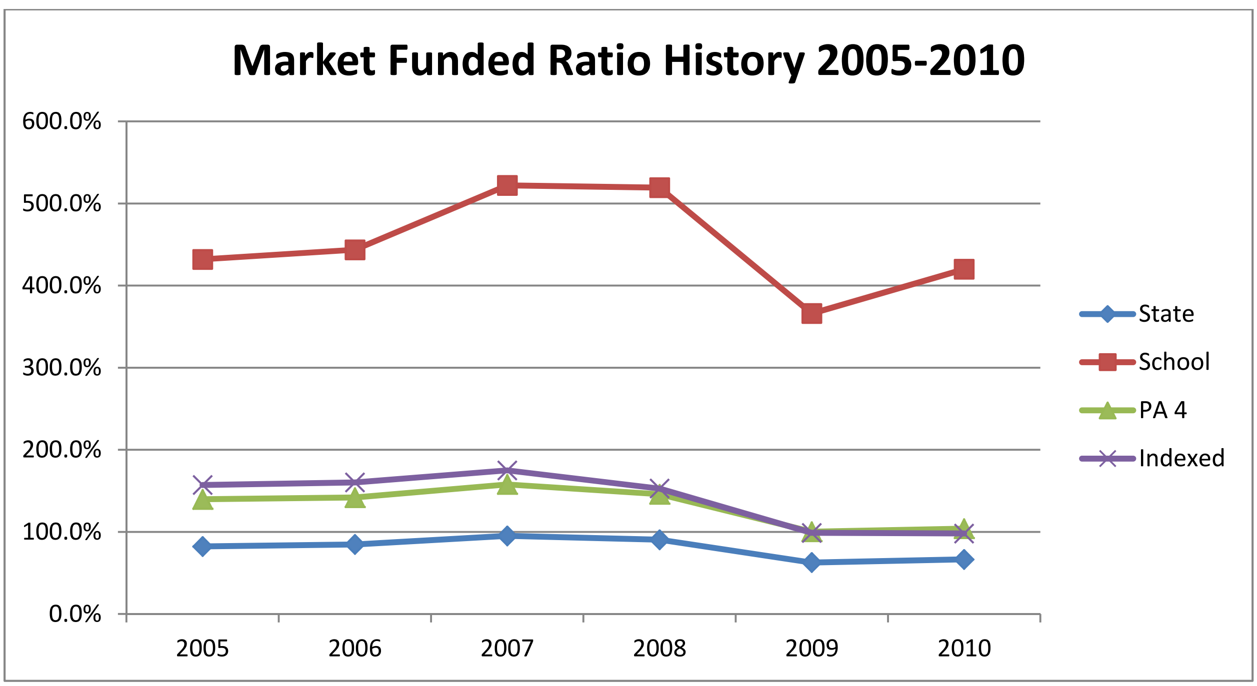
Prior Year's Experience

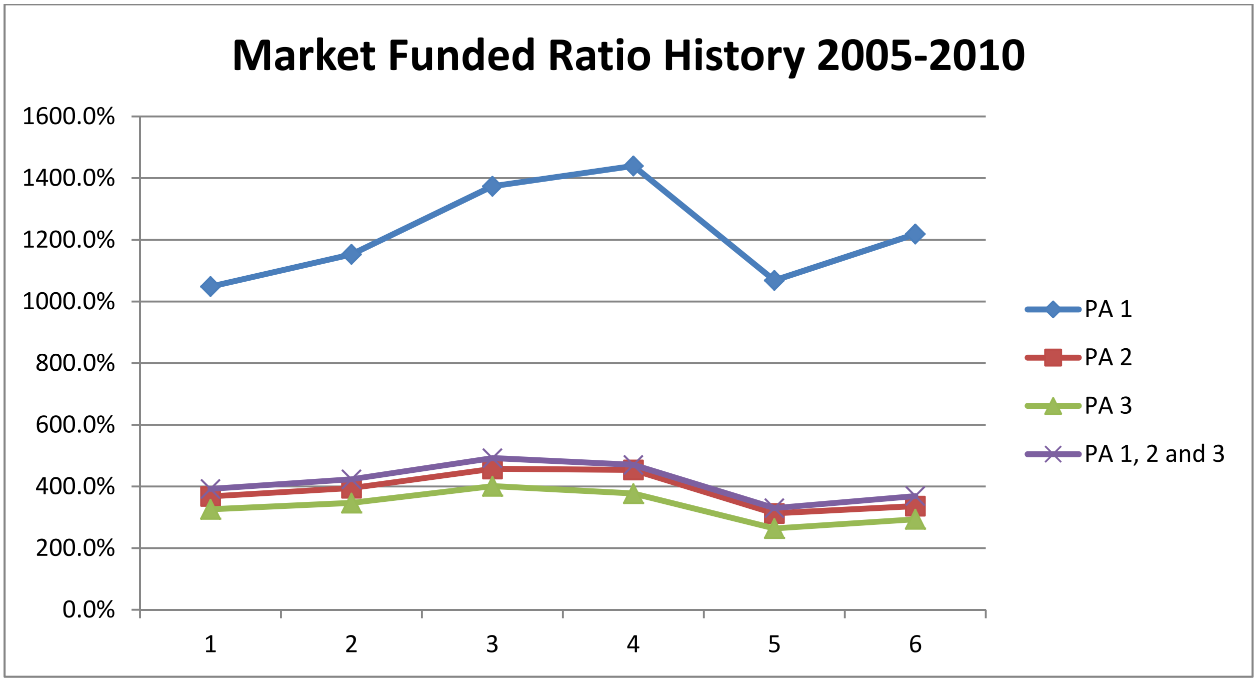
The exhibit below shows a 4-year history of the funded status between valuation dates for each pool on a market value basis. The market value indicator provides a basis for comparison against past years, since the market value indicator is not influenced by changes in actuarial smoothing methods. Overall, it can be seen that the recent investment losses negatively impacted the funded status of the 1959 Survivor Program.

Market Value Funded Status 2007-2010

Pool	2007	2008	2009	2010
State	95.1%	90.4%	62.7%	66.4%
School	522.0%	519.3%	366.0%	420.0%
PA Level 1	1,373.5%	1,439.6%	1,068.2%	1,218.5%
PA Level 2	457.2%	453.7%	312.6%	336.3%
PA Level 3	401.0%	377.2%	263.8%	293.9%
PA Level 4	157.9%	145.9%	100.2%	103.9%
PA Indexed	174.9%	152.8%	98.8%	98.0%
Total Pools	176.2%	166.9%	115.9%	124.16%

All pools in the 1959 Survivor program realized a return of approximately 14.5% for fiscal year 2009-2010, which is above our assumed long-term rate of return on assets of 7.75%. Despite the positive return, portions of the unrecognized asset losses from 2008-2009 are being incorporated into the valuation this year in accordance with our current asset smoothing policy. Consequently, premiums are not trending downward. Below are graphical representations of the 6-year history of the market value funded status for all pools in the 1959 Survivor Program. Public Agency Pools 1, 2 and 3 are shown individually and combined, since it is anticipated that legislation will be passed sometime this year combining these pools.





Liability gains and losses across all pools continue to display a random pattern around zero. In fact, over the last 5 years, the average gain/loss over 7 pools (35 data samples) amounts to a loss of only $26,806 per pool. This indicates that we are extremely accurate in anticipating the true long-term cost of the plans. However, we are anticipating some volatility in the future as migration out of the smaller pools closed to new contracting, causes their size (active population) to decrease.

Following is a summary of the gains and losses attributed to each pool, the market value of assets not yet recognized due to rate stabilization and the changes, if any, to the total premium:

State Pool

- Asset loss of $808,885. Remaining asset loss not yet recognized: $11,324,386
- Liability Gain/Loss - $405,641 gain
- Total Premium – Remains at $10.90
- Employer Premium – Remains at $5.45
- Employee Premium – Remains at $5.45

School Pool

- Asset loss of $412,790. Remaining asset loss not yet recognized: $5,779,054
- Liability Gain/Loss - $326,300 gain
- Total Premium - Remains at $2.00
- Employer Premium – Remains at $0.00
- Employee Premium - Remains at $2.00

Public Agency Level 1 Pool

- Asset loss of $225,480. Remaining asset loss not yet recognized: $3,156,720
- Liability Gain/Loss - $71,324 gain
- Total Premium - Remains at $2.00
- Employer Premium – Remains at $0.00
- Employee Premium - Remains at $2.00

Public Agency Level 2 Pool

- Asset loss of $59,433. Remaining assets loss not yet recognized: $832,062
- Liability Gain/Loss - $75,976 loss
- Total Premium - Remains at $2.00
- Employer Premium – Remains at $0.00
- Employee Premium - Remains at $2.00

Public Agency Level 3 Pool

- Asset loss of $614,041. Remaining assets loss not yet recognized:$8,596,576
- Liability Gain/Loss - $589,757 gain
- Total Premium - Remains at $2.00
- Employer Premium – Remains at $0.00
- Employee Premium - Remains at $2.00

Public Agency Level 4 Pool

- Asset loss of $1,039,516 Remaining assets loss not yet recognized:$14,553,225
- Liability Gain/Loss - $466,704 loss
- Total Premium – Remains at $5.90
- Employer Premium – Remains at $3.90
- Employee Premium - Remains at $2.00

Public Agency Indexed Pool

- Asset loss of $139,180. Remaining assets loss not yet recognized: $1,948,522
- Liability Gain/Loss - $496,070 loss
- Total Premium – Increased from $5.80 to $6.40
- Employer Premium – Increased from $2.90 to $3.20
- Employee Premium – Increased from $2.90 to $3.20

V. STRATEGIC PLAN:

This item is not a specific product of the Strategic or Annual Plans but is part of the regular and ongoing workload of the Actuarial & Employer Services Division.

VI. RESULTS/COSTS:

See report.

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Attachments